

**Adult Basic Education Department Audit
Adult Basic Education Department
2008-2009**



**Dallas Independent School District
Internal Audit Services**

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August 21, 2009

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Acronyms Section	
ABE	Adult Basic Education
ESL	English as a Second Language
GED	General Education Development
OMB	Office of Budget and Management
TANF	Temporary Assistance for Needy Families
TEA	Texas Education Agency

Executive Summary

Dallas Independent School District Grants Management Department requested Internal Audit to conduct a review of Adult Basic Education (ABE) Department's internal controls. Internal Audit identified the following weaknesses within the ABE Department:

- The ABE Department does not have sound management practices and adequate procedures for administering federal funds in a manner consistent with rules and regulations within the grant application.
- The ABE Department does not have formal procedures in place to order non-capital fixed assets and the delivery of such items to appropriate staff for usage within the grant period.
- The ABE Department does not have adequate internal controls established to reduce the risk of funds mismanagement nor preventive measures to deter fraud.

During the audit, it was brought to our attention by various ABE employees that the ABE Manager was in violation of the district payroll policy, grant fund accounting and federal regulatory requirements. Internal Audit, as well as, the Ombudsman department interviewed employees and documented the employee harassment and intimidation that was practiced by the ABE Manager. Internal Audit could not interview employees in the workplace without the ABE Manager present; ABE employees had to meet the auditors elsewhere to have a candid conversation about their operation.

Our review of internal controls resulted in recommendations requiring sound management practices and adequate procedures for administering federal and state funds to comply with TEA regulations. Once implemented, the risk of funds mismanagement would be reduced and proper implementation of formal documentation procedures for payroll expenditure would improve transparency.

Introduction

ABE Grant Program

The Texas Education Agency (TEA), awarded \$3,672,329 to Dallas ISD for School Year 2008-2009. Through this grant, Dallas ISD provides General Education Development (GED) classes and English as a Second Language (ESL) classes. According to the Adult Basic Education Department, the mission is to ensure that all adults in Dallas have the opportunity to develop the academic skills necessary to function effectively. Table below shows amounts awarded to each grant fund.

TABLE A

Fund Number	Fund Name	Amount of Award for 2008-2009 School Year
209	Corrections	\$126,672.00
220	ABE Federal	\$2,446,887.00
223	TANF Federal	\$298,607.00
309	EI Civic	\$101,999.00
381	ABE State	\$543,179.00
382	TANF State	\$134,985.00
Total		\$3,672,329.00

We conducted an audit of payroll expenditures and non-capital equipment for 2008-2009 school year of the ABE Department. Our review of the expenditures covered the payroll periods, August 2008 through May 2009.

Methodology

Internal Audit evaluated ABE payroll expenditures for validity and accuracy of payments and documentation specific to the district and the grant program requirements. In addition, we examined non-capital fixed assets to determine whether such purchases were allowable. We evaluated controls to provide reasonable, but not absolute, assurance that control objectives were operating with sufficient effectiveness during the period specified.

The auditor was obstructed from communicating with employees about various ABE operational procedures. A memo, dated June 23, 2009, issued by Internal Audit to OPR, described some of the violations and mismanagement observed by ABE employees of ABE manager's operating style.

Conclusion

The ABE Department does not have sound management practices and adequate procedures for administering federal funds in a manner consistent with rules and regulations within the grant application. There is a lack of proper budget management procedures and monitoring of employee hiring practice. As a result, documentation for employees' assignments, attendance, and charges could not be verified.

Non-capital fixed assets, computers and cameras, were not ordered until late in the grant period and were never used for program purposes.

The ABE Department does not have adequate internal controls established to reduce the risk of funds mismanagement or to prevent fraud. According to policy guidelines of the *OMB Circular 87-A*, Governmental Units are responsible for:

- The efficiency and effectiveness of the grant by implementing sound management practices
- Administering funds consistent with the grant regulations

The management style of employee intimidation, harassment, and retaliation practiced by the current ABE Manager has negatively affected the control environment and control activities set forth by the policy guidelines of *OMB Circular 87-A*.

Observations

1. ABE Department does not have formal procedures in place to document employment applications, time and attendance to support charges made to the grant.

Auditors examined all employment applications on file with the ABE Department and compared data to all employees that were paid with ABE funds. Of 348 employees, 134 (38.5%) employees' applications were not on file; also, interview documentation was missing. The ABE Department's requirements for employment, is that resume must be faxed or mailed to the Program Office and when a candidate is selected, an interview will be held. Also, according to the ABE Grant Application, the employee's information must be kept current.

If the hiring process is not proper and employment applications are not completed by every employee, there is a high risk of having unauthorized employees in the district as "Ghost Employees" and unqualified employees given assignments they are unable to perform. This observation was previously issued in the 2008/2009 ABE Overtime Audit Report.

Weaknesses around the current ABE Grant hiring and payroll processes:

- Hiring process procedures are not documented which led to the practice of the following:
 - Not all employees were required to complete an ABE employment application
 - Employment documentation with the ABE Department were missing
 - Assignments, duties and responsibilities were not documented when employee was hired
 - There was no monitor of the ABE Department hiring procedures
- The district Payroll policy and guidelines were not followed:
 - Employees were working from home
 - Biometric activity codes were not used to clock in/out
- ABE sign-in sheets were not being used or being used incorrectly at non-DISD facility sites:
 - Employees would sign in/out with their scheduled time, rather than the actual time that they arrived at work
 - Employees do not use sign-in/out sheets and students are not required to sign-in at some off site facilities
 - Time and Effort forms were not completed for the 2nd half of the 2008/2009 school year for both part-time and full-time employees
- ABE payroll charges to line the various fund line codes are done without the required documentation prescribed by the Grant Fund Regulations:
 - Employees are not being paid according to assigned positions
 - Employees are switched from duties and responsibility without proper supporting documentation, which leads to:
 - Employees getting paid from the incorrect fund
 - Charges to ABE grant funds are not supported by proper documentation

The following table shows payroll charges to ABE Program Funds that were not supported by documentation and are considered to be questionable costs:

TABLE A

Payroll Period July 2008 to June 2009

Number of Employees paid from:	A Questionable Cost			B Questionable Cost
Fund 220	\$ 657,225.04	191	110 out of 191	\$ 168,949.87
Fund 223	\$ 182,829.08	25	3 out of 25	\$ 13,212.05
Fund 382	\$ 29,276.77	1	0	\$ -
Fund 209	\$ 2,238.08	2	0	
Fund 309	\$ 1,318.36	3	0	
Total	\$ 872,887.33	222	113	\$ 181,906.07

The following table shows twelve instructor employees' payroll payments were incorrectly charged to Program Funds 220 and 382:

TABLE B

Payroll Period July 2008 to June 2009

Number of Instructor Employees Incorrectly paid from Fund 220	Amount	
11	\$ 194,113.52	Fund 309
2	\$ 25,139.71	Fund 209
Sub-total	\$ 219,253.23	
Number of Employees Incorrectly paid from Fund 382		
1	\$ 39,988.15	Fund 223
Sub total	\$ 39,988.15	
Grand Total	\$ 259,241.38	

2. ABE Department Program Manager does not have an adequate budgetary planning system and displays a lack of knowledge in grant compliance.

- ABE budget was not strategically planned to expend approved grant funds within the grant period

Three funds were significantly under spent: Fund 209 (69.8%), Fund 309 (57.8%) and Fund 382 (63.8%). The grant period ended for two of these funds on June 30, 2009 (see

table C below). In addition, there are negative balances within the budget line codes including general operational fund code (199). Funds were not allocated to certain line codes, but expenditures were charged creating negative amounts in the line code balances for a total amount of \$101,423.45 (see Table D).

TABLE C

Fund	Object	Period	Adjusted Budget	Actual Expenditure	Balance as of July 27, 2009	Percentage
209	Correction	7/1/2008-6/30/2009	126,672.00	88,431.36	0	38,240.64 69.8%
220	ABE-Fed	7/1/2008-6/30/2009	2,446,887.13	1,860,970.63	0	585,916.50 76.1%
223	TANF	9/1/2008-8/31/2009	298,607.00	251,767.65	0	46,839.35 84.3%
309	ADULTED ENGLISH LIT& CIVICS (M-309)	7/1/2008-6/30/2009	101,199.00	58,531.89	0	42,667.11 57.8%
381	ABE-State	9/1/2008-8/31/2009	543,179.00	402,187.42	48,042.71	92,948.87 82.9%
382	TANF-State	9/1/2008-8/31/2009	161,985.00	101,973.43	1,299.00	53,712.57 63.8%
Total			\$ 3,675,529.13	\$ 2,763,862.36	\$ 49,341.71	\$ 865,325.04 76.48%

TABLE D

Fund	Object	Adjusted Budget	Actual Expenditure	Balance as of July 27, 2009
199	6143,6216,6146,6124,& 6399	0	\$ 5,637.78	\$ (5,637.78)
209	6142,6145,6146,6143,6141,6118,& 6117	0	\$ 4,807.01	\$ (4,807.01)
220	6112,6115,6117,6118,6119,6121,6122,6125,6127,6129,6141,6142,6143,6145,6146	0	\$ 90,978.66	\$ (90,978.66)
Total			\$ 101,423.45	\$ (101,423.45)

- Program Manager displayed a lack of knowledge in grant compliance

When the ABE Program Manager was interviewed, there was lack of knowledge in the following regulations and requirements:

- Employees working with the ABE Department must complete an application yearly to adhere with the regulation that all employees' data must remain current.
- Allowable costs regulations

- Time and effort requirements
 - Split funded payroll requirements
- During the audit, it was brought to our attention by various ABE employees that the ABE Manager was in violation of: the district payroll policy, grant fund accounting and federal regulatory requirements. Internal Audit, as well as, the Ombudsman department interviewed employees and documented the employee harassment and intimidation that was practiced by the ABE Manager. Internal Audit could not interview employees in the workplace without the ABE Manager present; ABE employees had to meet the auditors elsewhere to have a candid conversation about their operation.

3. ABE Department does not have formal procedures in place to timely order and deliver non capital fixed assets to appropriate staff to be used in the current grant period.

We discovered items ordered for use in SY 09 were unopened. The acquired dates of the non-capital equipment were purchased near the end of the grant period, from February 2009 to May 2009 (see table below). Therefore, the equipment was not used during the entire contract period allocated by the Notice of Grant Award for funds 309 (El Civic) for the period of 7/1/08 to 6/30/09, 381 (ABE State) for the period of 9/1/08 to 8/31/09, and 382 (TANF) State for the period of 9/1/08 to 8/31/09.

TABLE E

309 LCivic	Laptop - ThinkPad T61a	2/13/2009	2	\$2,457.54	Y (still in boxes)
309 LCivic	Aver Media Digital Camera - Model # CP150	5/11/2009	6	\$2,970.00	Y (still in boxes)
381 ABE State	ThinkPad T500	2/27/2009	5	\$6,143.85	Y (still in boxes)
382 TANF State	ThinkPad T500	2/27/2009	2	\$2,457.54	Y (still in boxes)
382 TANF State	ProFinish XL 38" Cold Laminating System	4/2/2009	1	\$4,594.90	Y (still in boxes)
382 TANF State	CAP CANPSA10001SGRY - Digital Camera, 10MP 4x OPT Zoom, Gray	4/23/2009	2	\$408.00	Y (still in boxes)
382 TANF State	AverMedia Digital Document Camera - Model AverVision 130	5/8/2009	3	\$1,059.00	Y (still in boxes)
Totals			21	\$20,090.83	

Recommendations

We recommend the Executive Director of Parent Services:

1. Separate ABE hiring process from the ABE Department.

This process should fall under the Human Resource Department which will provide proper oversight of the qualification and required documentation of prospective employees. Meanwhile, until this change is approved by senior management to take place, we recommend the ABE Program Manager implements hiring procedures that require the following:

- Proper documentation of the interview and selection of each employee
- Have each employee complete an employment application and submit a resume
- Document what activity the employee will be performing, and to which fund the charges will be applied
- Keep information for each employee current by having each employee submit an application each grant period
- Keep all documentation above in each employee's file in a safe and secure location.

2. Require the ABE Department strictly adhere to proper hiring practices to reduce the risk of hiring unqualified employees.

3. Require Strategic Planning

- Implement a strategic plan for the various Program Fund expenditures that align with the applicable Notice of Grant Award contract period. Expenditures should be timely in order to meet the objectives of the Program.
- Class schedules planned with the number of employees needed to achieve program objectives and clear documentation as to the responsibilities required under the program the employee was hired. This schedule is to be updated as often as needed.
- Students' sign-in sheets are to be completed with their printed name and signature for all classes appearing on the class schedule at the time class is in session.
- To address TABLE E, a tactical plan for the upcoming program year should be established for the purchase and use of non-capital assets.

4. Ensure Payroll Reporting Procedures are Followed:

- All employees use the biometric clock to sign in/out when working at a facility where there is a biometric clock available
- Set up a biometric clock activity code which will link the employee's activity to the proper fund and function code
- At sites where there is no biometric clock, all employees must sign in/out with the actual time of arrival/departure at the facility and document the grant funded activity being performed on the sign in/out sheet

- Employees should not be allowed to work from home on grant funded activity where there is no supervision of the actual time worked
5. **Ensure Correction is made to Program Fund Payroll Charges:**
- Payroll charges appearing in **TABLE B** should be made to the correct Fund
 - Questionable costs appearing in **TABLE A** should be addressed with explanations or possible corrections with supporting documentation.
6. **Requirements for an ABE Program Manager**
- In addition, ABE Program Manager is required to be knowledgeable about the grant programs under his/her direction and competent to properly manage these programs to be in compliance with Federal Grant Regulations; we recommend such person to manage the ABE Grant Program.

Management's Response

Based on the findings reported, it appears that this audit has identified findings similar to Adult Basic Education (ABE) audit, conducted March 10, 2009. That is, the aforementioned audit examined one grant with a focus on overtime expenditures, hourly personnel, and grant program requirements for time and effort. The current audit (July 2009) examined all six grants for payroll expenditures and non-capital equipment. The first and second audits occurred within a span of approximately 4-6 months.

Specifically, the initial audit (March 2009) found unreasonable expenditures pertaining to use of support (hourly) staff and subsequent overtime payments. Overall recommendations included: (1) revamping and implementing controls for the hiring process, (2) eliminating unreasonable overtime (pertaining to hourly employees) and payroll documentation/reporting procedures, (3) implementing controls for personnel expenditures and budget reconciliation.

Similarly, the current audit (July 2009) also found discrepancies with: (1) the hiring process and related documentation, (2) excessive unspent monies, (3) gaps/discrepancies in payroll documentation, (4) unassigned new non-capital equipment (laptops), (5) payroll discrepancies related to time and effort and grant program, and (6) "the auditor was obstructed from communicating with employees about various ABE operational procedures"

In response to the first (March 10, 2009) audit an interdepartmental Task Force was formed comprised of departments and staff as follows:

Department	Position
Chief of Staff	Compliance
Human Development	Central Staffing
Internal Audit	Auditor
Payroll	Specialist
Grant Budget	Manager
Adult Basic Education	Director
Parent Services	Executive Director

The ABE Task Force also reviewed the March 10th audit report, developed an action plan, and met regularly to monitor progress. The most salient components included: (1) developing a hiring process for exempt and non-exempt staff to ensure payroll costs are reasonable, (2) eliminating the hiring of full-time non-exempt (hourly) personnel, (3) developing job descriptions in alignment with grant program requirements and communicating program changes.

Other critical program improvements included the following:

- Developed budget spreadsheet tracking all expenditures – October 2008
- Identified of budget negatives and subsequent notification to the budget department November/December 2008
- Monitored of budget managers reports – November 2008
- Notified and handed off payroll negatives to the budget department – December 2008
- Alignment of personnel line codes and grants in conjunction with Human Resources – November 2008 and February 2008
- Conducted time and effort initiative (developed spreadsheet, updated spreadsheet for time and effort payroll) – May 2009
- Submitted time and effort corrections to budget department - May 2009
- Hired of budget specialist – May 2009

Other critical program challenges included the following:

- Hiring freeze due to district financial crisis and employee layoffs – September 2008
- Budget corrections not completed by budget department until June 2009
- Labor distribution problems with payroll software that creates budget negatives
- Relocation of office from Ervay to Service Center II – March 2009
- Program manager placed on leave – July 2009
- Interim director assigned – August 2009

1. Separate the ABE hiring process from the ABE Department:

- **Acknowledgement of findings and recommendations:** The ABE Department has implemented a stringent process and controls for hiring including postings aligned with grants, applications, interviews, reference checks, and hiring. These efforts began after the March 2009 audit and continue at present. Nonetheless, the audit findings pertain to new hires that occurred prior to the audit. Going forward, the ABE Department, in conjunction with Central Staffing, has capacity to manage the hiring process. A committee will interview applicants and make recommendations for hire.
- **Description of corrective action(s):** 1) Adhere to district process for hiring including postings, application, interviews and review of qualifications, reference checks, and selection process, 2) Develop "notice of assignment" letter for all personnel, that includes job title, grant funding, and time and effort requirements, 3) Conduct the application process annually for all current and future employees, 4) Maintain all documentation in a safe and secure place, 5) Develop rosters with names of all personnel for sign-in and sign-out, 6) Provide training to ensure employees use the biometric clock when available and follow arrival and departure sign-in and sign-out procedures at locations without the biometric clock, 7) Document activity and maintain files.
- **Timeline for implementation:** August 2009
- **Identification of specific staff member(s) responsible for implementing corrective action:** Interim Director and Program Specialists

2. Require the ABE Department strictly adhere to proper hiring practices to reduce the risk of hiring unqualified employees and ghost employees:

- **Acknowledgement of findings and recommendations:** See acknowledgement and corrective actions # 1. The corrective actions noted below are an attempt to establish a form of documentation. Additionally, program specialists may provide affidavits regarding the existence and provision of services for the 2008-2009 program year.
- **Description of corrective action(s):** 1) Locate existing documents and correspondence for all 2008-2009 personnel (teachers, teacher facilitators, etc.) that demonstrates evidence that employees were on the job (sign-in sheets, letters to staff, rosters, notes from program participants, emails, etc.), 2) For the 2009-2010 program year, require all existing personnel to reapply annually and provide all staff with a letter of assignment, 3) Align all staff with their job assignment and job description, 4) Provide training about the hiring process for all staff and orientation for new employees.
- **Timeline for implementation:** September 2009
- **Identification of specific staff member(s) responsible for implementing corrective**

action: Interim Director and Program Specialists

3. Require strategic planning:

- **Acknowledgement of findings and recommendations:** Procure technical assistance and leadership development for program specialist and interim director. Provide direct on-going support to interim director and program specialists.
- **Description of corrective action(s):** 1) Provide OMB Circular 87-A training for all staff, 2) Specifically address time and effort requirements with all program personnel and transparency for program implementation and related compliance/documentation, 3) Procure technical assistance and leadership development for program specialist and interim director, 4) Provide direct on-going support to interim director and program specialists, 5) Schedule a team-building retreat, 6) Develop a master calendar, 7) Develop a master work plan for instructional delivery, staff development, testing, and non-capital equipment, payroll, and, 8) implement and monitor, 9) ensure class schedules and sign-in logs are created and maintained and aligned to the grants, 10) ensure expenditures are aligned to each grant, 11) create class rosters that identify each class and person responsible for the class.
- **Timeline for implementation:** 30-90 days
- **Identification of specific staff member(s) responsible for implementing corrective action:** Executive Director, Interim Director and Program Specialists

4. Ensure payroll reporting procedures are followed:

- **Acknowledgement of findings and recommendations:** Employees at Dallas ISD sites shall be required to use the biometric clock using the appropriate activity code – employees at non Dallas ISD site shall be required to maintain a sign-in/out log approved and signed off by the teacher assigned to that class at that location.
- **Description of corrective action(s):** See acknowledgements and recommendations #'s 1-3.
- **Timeline for implementation:** 30 days.
- **Identification of specific staff member(s) responsible for implementing corrective action:** Interim Director and Program Specialists

5. Ensure correction is made to program fund payroll charges:

- **Acknowledgement of findings and recommendations:** Monitor budget expenditures and cross reference the expenditures with oracle financials. Run budget manager reports

weekly to monitor expenditures.

- **Description of corrective action(s):** Continue program improvements as noted above and corrective actions #'s 1-2.
- **Timeline for implementation:** 60 days
- **Identification of specific staff member(s) responsible for implementing corrective action:** Interim Director and Program Specialists

6. Requirements for an ABE program manager:

- **Acknowledgement of findings and recommendations:** The program manager shall be required to understand and implement ABE grants and manage the programs as required by policy and according to the grant guidelines. The ABE Task Force will meet monthly to review and discuss the activities as defined in the audit(s)
- **Description of corrective action(s):** See corrective actions # 3. Also will provide interim and program specialists' state and federal training(s) available for grant managers.
- **Timeline for implementation:** On-going
- **Identification of specific staff member(s) responsible for implementing corrective action:** Executive Director, Interim Director and state technical assistance team.

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